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STATE FOR P, T, ISN, EUR, EUR/WE ALLEGRONE AND SHARP  
TREASURY FOR TTFC O'BRIEN, FERNANDEZ, SULLIVAN, AND ARCHIN  
TREASURY ALSO FOR FINCEN FREIS

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TAGS: [TTFN](#) [EFIN](#) [PARM](#) [MNUC](#) [PREL](#) [KCRM](#) [ECON](#) [LU](#) [IR](#)  
SUBJECT: TREASURY OFFICIALS MEET WITH GOL AND CLEARSTREAM

REF: STATE 149648

Classified By: DCM Steven H Kraft for Reasons 1.4 b & d

11. (C) SUMMARY: On 8 November 2007, the U.S. Department of Treasury held consultations in Luxembourg with the Government of Luxembourg (GOL) and private sector as part of ongoing USG outreach highlighting the danger of doing business with Iran. The Treasury delegation met with senior Ministry of Finance and MFA officials as well as with an official from the independent financial sector supervisor. They also met separately with representatives from Clearstream, SA. During both meetings the Treasury delegation called attention to the Financial Action Task Force's (FATF) recent activities and statements regarding Iran, the U.S.'s 25 October domestic designations of the Islamic Revolutionary Guards Corps (IRGC) and related entities, including Banks Melli, Mellat and Saderat, and the risks to institutions of doing business with Iran. The GOL thanked the delegation for the meeting and information and also indicated it would issue a circular informing Luxembourg financial institutions of the FATF's actions. Clearstream representatives said they appreciated the meeting and requested that the USG provide more detailed information regarding designated individuals/entities whenever possible. END SUMMARY.

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GOL CONSULTATIONS  
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12. (C) Department of Treasury A/S for Terrorist Financing Patrick O'Brien, Director of the Financial Crimes Enforcement Network (FinCEN) James Freis, and Policy Advisor DeAnna Fernandez met with Luxembourg's Director of the Treasury Jean Guill and Jean-Luc Kamphaus, First Councilor, Ministry of Finance; as well as Orlando Pinto, from the MFA, s Directorate of International Economic Relations and Jean-Francois Hein from the Commission de Surveillance du Secteur Fiancier (CSSF - NOTE: The CSSF is the Luxembourg financial sector's supervisory authority. END NOTE). The Embassy was represented by Tom Boughter, Political and Economic Section Chief and Jason Chiodi, Economic Officer (notetaker).

13. (C) A/S O'Brien began by placing the delegation's visit in context - he had been part of an interagency delegation to Vienna and Brussels on counter-terrorism issues, but Treasury was taking the opportunity to have a few side meetings to discuss the Iran issue. O'Brien mentioned that he would be meeting with Clearstream, SA later in the day since it was the most logical contact in Luxembourg due to its vital importance in the international finance system in its roll as "the banker's bank." A/S O'Brien told the GOL that Treasury

had several purposes for the meeting: 1) to call the GOL's attention to recent actions and activity taken regarding Iran - FATF's 11 October actions/statements and the 25 October U.S. domestic designations of the IRGC; 2) to answer any questions the GOL may have about the U.S.' 25 October designations; and 3) to ask for GOL's input and assistance in efforts to multilateralize additional sanctions on Iran to support the diplomacy.

14. (C) A/S O'Brien reviewed the recent FATF statements and actions as well as the USG's actions based on the FATF recommendations. FinCEN Director Freis explained the advisory that FinCEN issued to U.S. financial institutions based on these recommendations and provided the GOL with a copy of the advisory. Hein, the CSSF representative, indicated that the CSSF had not yet issued such an advisory, but that the CSSF would do so.

15. (C) A/S O'Brien noted that while the U.S. made the 25 October designations unilaterally, it saw this action as a piece of an overall effort to build consensus for further multilateral action. He further noted that the U.S. actions also provide additional information to the private sector. He stated that while foreign financial institutions are not legally obligated to take action against U.S.- designated entities, many institutions still take the information under consideration as part of their overall country risk evaluations and that it has also contributed to a private sector re-evaluation of the risks of doing business with Iran. He further noted that if the late November Solana and IAEA reports turn out to be negative as all expect, then all signs point towards a third round of UNSC sanctions. In that regard, O'Brien pointedly asked for Luxembourg's support within the EU for sanctions. Guill did not respond specifically saying only that he also agreed that all signs pointed to a third round of sanctions before the end of the year. The Treasury delegation also asked for Luxembourg's feedback and input on the sanctions process, specifically regarding feedback from the private sector on difficulties they encounter in complying with the sanctions. Treasury was very interested in how entities which had relationships with Iran were able to implement these sanctions.

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MEETING WITH CLEARSTREAM OFFICIALS  
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16. (C) The same USG delegation met later in the day with Michael Steinicke, Head of Department, Group Risk Management and Group Compliance and Christian Heyne, Head of Section, Legal Affairs from Clearstream, S.A. (Clearstream). A/S O'Brien repeated the context of the visit and explained that his delegation was in the region on other USG business and wanted to take the opportunity to continue similar Treasury outreach efforts around the world to call attention to the risks of doing business with Iran. O'Brien reviewed and explained the reasoning behind the FATF statements and actions, focusing on matters specifically applicable to the difficulties the private sector had in dealing with a jurisdiction which lacked transparency, making it difficult to "know your customer" (KYC). O'Brien mentioned that the USG understood that there was a relationship between Clearstream and Iran and while this was a matter for Clearstream to decide on their own internal calculus, it was important to note that there are significant risks inherent in Iranian business and there has been a significant private sector movement away from doing business with Iran by big banks.

17. (C) Heyne explained the legal framework in which Clearstream operated and Steinicke explained how Clearstream conducted KYC/compliance activities. Clearstream's goal was to remain in one regulatory environment to the greatest extent possible (that of Luxembourg as it is a Luxembourg-registered company). Their compliance efforts included an automated transaction filtering program which uses Treasury's Office of Foreign Assets Control's Specially Designated Nationals (OFAC SDN), EU, and UN lists to generate

alerts. These alerts are then personally reviewed by compliance officers who will either authorize the transaction or report to the appropriate Luxembourg authorities. Heyne said that Clearstream had not had an instance in which their transaction screening revealed an entity on the OFAC list - but not on the EU or UN lists - and thus were forced to make a decision about whether to refer the information to government authorities. Clearstream explained the challenge that KYC activities posed due to the nature of its business and how little information is included about the transaction beyond the amount(s), account number(s), and bank name(s).

¶18. (C) O'Brien and Freis thoroughly detailed U.S. regulations and suggested that in certain instances, Clearstream may have access to more information than simply the above information.

Clearstream acknowledged this possibility. Clearstream then inquired about the general legal parameters governing an instance in which a U.S. bank was both a client/customer of Clearstream but also a service provider to Clearstream in the U.S. market. Freis clearly explained the extent to which U.S. sanctions obligations applied to any U.S. person and thus could restrict a U.S. bank from providing services indirectly to a sanctioned entity. In response to Heyne's questions, Freis explained that the services some U.S. entities provide via foreign counterparts which may not be subject to U.S. laws usually contain provisions that the foreign counterpart not engage in activities with U.S. sanctioned persons. He relayed a historical, publicly known example in which UBS was assessed a \$100 million civil money penalty by the U.S. Federal Reserve in May 2004 for deceptive conduct in providing bulk cash services to several countries subject to U.S. sanctions programs via an overseas affiliate in violation of its contractual agreement with the Fed.

¶19. (C) The Treasury delegation also asked for Clearstream's feedback and input regarding difficulties they encountered in complying with the sanctions. This was of great interest to the USG as the U.S. private sector and regulatory authorities have very little experience dealing with Iran due to long-existing U.S. sanctions programs. In response, the Clearstream officials said that meetings and information such as this were of great help and that when possible, more specific information regarding customers would also be helpful.

¶10. (C) COMMENT: Treasury Director Guill is Justice and de facto-Finance Minister Frieden's right-hand man. As Frieden had just returned from the U.S. where he had discussed the matter of Iran sanctions with various USG officials, Guill seemed embarrassed and a bit irritated that the CSSF had not yet complied with the FATF's recommendation to issue an advisory. We are thus confident that the CSSF will issue an advisory shortly. While Guill did not respond directly to O'Brien's request for GOL support for a third round of Iran sanctions, in discussions prior to the meeting, Kamphaus told P/E Chief that "we are beginning to re-think our position regarding sanctions." As recently as late October, senior MFA contacts informed us that Luxembourg's position was that it had confidence in the P5 1 process and in EU High Representative Solana and that it hoped a third round of sanctions would not be necessary. Post will follow up with our GOL contacts as well as with the CSSF if a circular is not issued within two weeks (21 November).

¶11. (C) COMMENT CONTINUED: The Clearstream officials were forthcoming about how they conducted KYC and compliance activities and claimed full compliance in light of the limited amount of information available to them. However, the Treasury delegation's detailed explanation of the applicability of U.S. sanction laws made it clear to them that there was the possibility of exposure to U.S. sanctions in certain instances. END COMMENT.

¶12. (SBU) This cable has been cleared by A/S O'Brien & Director Freis.  
WAGNER